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tions of government,—legislative, executive and judicial,—are essential, and the agencies through which they are exercised should be made as efficient and effective as possible; that research, education and development are not only necessary to the public welfare and helpful to commerce and industry, but they are creative and wealth-producing, and tend to lighten rather than increase the burdens of taxation; and that the money put into public works (if wisely expended) is a profitable investment which aids materially in the development of the public domain and

the country as a whole. As all of these activities together represented in 1920 only 6.4 per cent of the taxes collected, they would amount to less than 20 per cent of the whole, if the expenditures for these purposes were doubled and the total of taxes collected were reduced by one-third. That would make possible a great increase in the constructive service and welfare work of the government, and still leave more than three billion dollars per year for military expenditures, pensions, interest and the reduction of the public debt.

## Sources of Revenue of the States with a Special Study of the Revenue Sources of Pennsylvania

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**T**HE perplexing problem of providing increased revenues to meet the constantly growing expenditures of the state governments without disturbing their economic tranquillity is the perennial nightmare of the legislators of our several commonwealths. If the states are to continue expanding their activities, as public opinion is demanding, additional sources of revenue must be found or old sources must be rendered more productive. It may be a valuable aid, therefore, to a correct appreciation of this problem to demonstrate with the aid of simple diagrams the present revenue sources of the states, the per capita contribution, and the relative productivity of each source. Furthermore, it may prove of particular interest to supplement this study of the states with a special study of the revenue system of Pennsylvania, certain features of which are both unique and suggestive. Table I presents an analysis of the

aggregate revenue receipts of the states for the year 1919. These statistics incorporate the revenues collected for the fiscal years ending on some date between July 1, 1918 and June 30, 1919, and are the latest statistics available for this purpose.

It is evident in the first place from chart I that the states are largely dependent upon taxation for their revenue, since taxes yielded 78.2 per cent of the total.

Only seven states in 1919 received less than 60 per cent of their revenue receipts from taxes. In this group were Minnesota, Missouri, North Dakota, South Dakota, Montana, Idaho, and Wyoming. States deriving almost 90 per cent or more of their revenue receipts from taxes were Pennsylvania, New York, New Jersey, and Illinois. The general departmental receipts rank next in importance to taxes and comprise those amounts received by the states in exchange for certain

TABLE I—REVENUE RECEIPTS OF STATES, 1919

		Per Capita	Per Cent
<b>Taxes:</b>			
1. General property.....	\$237,234,778	2.26	35.1
2. Special property.....	104,222,552	.99	15.5
3. Business.....	122,667,336	1.24	19.4
4. Non-business license.....	48,025,730	.38	5.9
5. Other special taxes.....	13,554,063	.13	2.0
6. Poll.....	2,114,708	.02	0.3
	<hr/>	<hr/>	<hr/>
	\$527,819,167	5.02	78.2
<b>Other Than Taxes:</b>			
7. Earnings of general departments.....	\$83,203,459	.79	12.3
8. Highway privileges, rents, interest.....	36,513,164	.35	5.4
9. Subventions, grants, donations.....	17,093,649	.16	2.5
10. Special assessments.....	4,408,216	.04	0.7
11. Earnings of public service enterprises....	3,306,147	.03	0.5
12. Fines, forfeits, escheats.....	2,873,400	.03	0.4
	<hr/>	<hr/>	<hr/>
<i>Grand Total</i> .....	\$675,217,202	6.43	100.

services performed, including principally the fees collected by state officials, charges for the regulation of

Highway privileges and rents are of comparative insignificance, but the interest collected by the states on their general and special funds forms a considerable item, accounting for 4.2 per cent of the total. The source designated on the chart as "subventions, etc." includes subventions, grants, donations, and pension assessments, although subventions are by far the most important item, and refer to the contributions made by the national government to the states chiefly for educational purposes and for the relief of indigent soldiers and sailors, highways, experiment stations, and agricultural extension. Donations are contributions made by private individuals and corporations generally for charitable and educational activities, and pension assessments refer to amounts collected from state employes or public school teachers and other persons who may participate in the benefits enjoyed from such funds. The amounts from these various sources are inconsiderable, however, yielding only 2.5 per cent of the total receipts, of

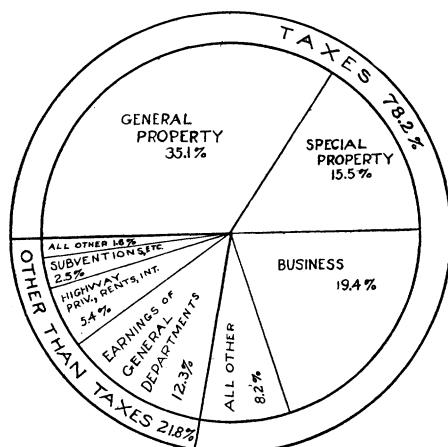


CHART I

Per Cent Distribution of Aggregate Revenue Receipts of States, 1919<sup>1</sup>

<sup>1</sup> See *Financial Statistics of States, 1919*.

financial institutions and other corporations, income received in developing agriculture, and amounts collected by the states' charitable and corrective institutions and hospitals.

which almost 2 per cent were the federal subventions. The source designated as "all other" includes receipts from the earnings of public service enterprises, amounts accumulating from fines, forfeits, and escheats, and sums collected by special charges and special assessments.

#### STATE TAXES

In analyzing the most important source of revenue—taxation—reference must be made to the charts and tables to understand the significance of the taxation receipts, both in their relation to the entire revenue system and also in their relation to the aggregate taxation receipts. The traditional general property tax continues as the bulwark of the revenue systems of the states, supplying 45 per cent of the taxation receipts and 35.1 per cent of all the revenue receipts. As defined by the Census Bureau the general property tax includes "all direct taxes upon real property and taxes upon other property which are apportioned and levied by substantially the same

methods employed in apportioning and levying taxes upon privately owned real property." As a source of state

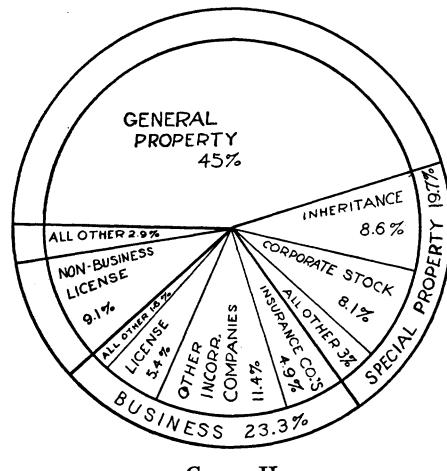


CHART II

Per Cent Distribution of Aggregate Taxation Receipts of States 1919<sup>1</sup>

<sup>1</sup> *Financial Statistics of States, 1919.*

revenue the general property tax has been completely abandoned by Pennsylvania and Delaware, and California realizes only a very insignificant sum from this same source. In all the

TABLE II—TAXATION RECEIPTS CLASSIFIED

1. General property.....	\$237,234,778	45.0
2. Inheritance.....	45,770,365	8.6
Corporate stock.....	45,525,564	8.1
Savings bank.....	6,031,201	1.1
All other.....	9,895,422	1.9
3. Insurance companies.....	25,954,062	4.9
Other incorporate companies.....	60,210,823	11.4
Income of individuals.....	5,278,284	1.0
Liquor licenses.....	14,228,151	2.8
Business licenses.....	13,780,307	2.6
All other.....	3,215,709	0.6
4. Motor.....	43,950,522	8.3
Hunting and fishing.....	3,250,506	.6
Dog licenses.....	728,558	.1
Permits.....	93,251	.1
All other.....	2,893	...
5. Other special taxes.....	13,554,063	2.5
6. Poll tax.....	2,114,708	.4
<i>Total.....</i>	<i>\$527,819,167</i>	<i>100.</i>

TABLE III—REVENUE RECEIPTS OF PENNSYLVANIA<sup>1</sup>

		<i>Per Capita</i>	<i>Per Cent</i>
<b>Receipts from Taxes:</b>			
1. Special property.....	\$27,350,941	3.11	57.9
2. Other special taxes.....	974,024	.11	2.1
3. Business.....	9,194,410	1.03	19.4
4. Non-business license.....	4,338,895	.51	9.3
	\$41,858,270	4.76	88.7
<b>All Other Receipts:</b>			
5. Fines, forfeits, etc.....	\$141,181	0.02	0.3
6. Subventions, gifts.....	325,726	0.04	0.7
7. Earnings of general departments.....	4,662,437	.53	9.9
8. Interest.....	214,619	.02	0.4
	\$47,202,233	5.37	100.

<sup>1</sup> This report includes the fiscal years ending between July 1, 1918, and June 30, 1919. Since the Pennsylvania fiscal year ends November 30, the data in this report for Pennsylvania are for the fiscal year 1918.

other states, the general property tax not only furnishes a considerable portion of the revenue, but in twenty-

of the amount of corporate stock or corporate indebtedness, taxes upon the deposits of savings banks that are in excess of a certain amount, and inheritance taxes. This source supplied 15.5 per cent of the total revenues and 19.7 per cent of the taxation receipts of the states in 1919. All the states with the exception of Wyoming and New Mexico levy special property taxes. There are only a few states, however, which use this source intensively. Of the total \$104,222,552 received from this tax 48.1 per cent was collected in Pennsylvania and New York.

The most important single item under the special property taxes is the tax on inheritances. The inheritance tax netted 8.6 per cent of all the taxes received by the states in 1919. Nebraska, South Carolina, Florida, and Alabama are the only states that received no revenue from this source. It is most productive in New York where it yielded 18 per cent of the receipts to that state from taxes. The corporate stock tax is not used so extensively as the tax on inheritances,

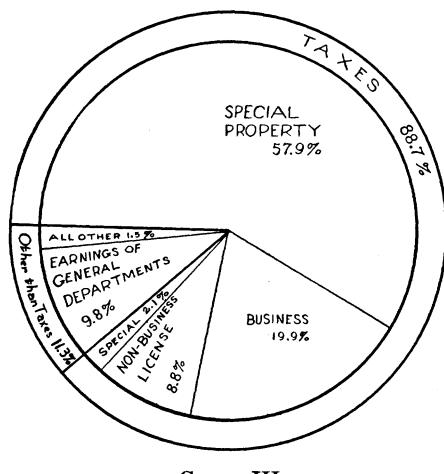


CHART III  
Per Cent Distribution of Revenue Receipts of Pennsylvania<sup>1</sup>

<sup>1</sup> *Financial Statistics of States, 1919.*

three of the states two-thirds of the taxation receipts are derived from it.

Special property taxes include principally taxes upon property of corporations levied generally upon the basis

yet the receipts from the corporate stock tax approximate the total from inheritance taxes, furnishing 8.1 per cent of the state taxes. Pennsylvania alone collected more than one-third of this sum. Massachusetts, Connecticut, Rhode Island, New York, Ohio, Missouri, and California collect large amounts from this source. But in most of the western and southern states, the amounts received are negligible, and fifteen states do not even use the tax. The tax on the deposits of savings banks is found in the New England states, and New York, Delaware, and Maryland. Massachusetts, which uses this tax to a far greater degree than any other state, realized \$1,926,090 from it in 1919. The source "all other" under special property taxes on chart II (*p.* 115) includes in addition to the tax on savings banks, which netted 1.1 per cent of all state taxes, taxes in certain states on the properties of telegraph, telephone, insurance, and street railway companies

and of building and loan associations, specified loans, investments, tonnage of vessels, and secured debt, all yielding

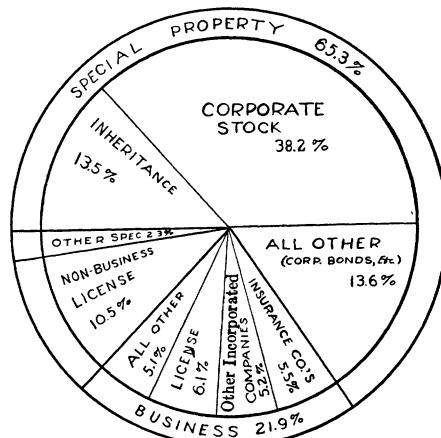


CHART IV

Per Cent Distribution of Taxation Receipts of Pennsylvania 1918<sup>1</sup>

<sup>1</sup>*Financial Statistics of States, 1919.*

the remaining 1.9 per cent of the special property taxes.

TABLE IV—REVENUE RECEIPTS FROM TAXES IN PENNSYLVANIA, 1918

#### 1. Special Property

Inheritance.....	\$5,646,538	13.5
Corporate Stock.....	15,993,907	38.2
All other (corp. loans).....	5,710,496	13.6
	<hr/>	<hr/>
	\$27,350,941	65.3

#### 2. Business

Licenses (other than liquor).....	970,868	2.4
Liquor traffic.....	1,540,077	3.7
Insurance companies.....	2,327,140	5.5
Other incorporate companies (gross receipts tax).....	2,237,750	5.2
All other.....	2,118,575	5.1
	<hr/>	<hr/>
	\$9,194,410	21.9

#### 3. Non-Business License

Hunting and fishing.....	\$309,631	.7
Motor registration.....	4,029,264	9.8

#### 4. Other Special Taxes

(Bonus on charter).....	974,024	2.3
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Total Tax Receipts..... \$41,858,270 100.

The business taxes are becoming of increasing importance today in the revenue systems of the states. These taxes are exacted from persons and corporations in proportion to the volume of their business or by reason of some business activity in which they are engaged. At present they are supplying one-fifth of the total revenues of the states and 23.3 per cent of the taxation receipts. In New York, business taxes furnish 35 per cent of all the taxes collected; in Ohio 44 per cent; in Minnesota 45 per cent; in California 53 per cent; in Delaware 61

most states the business taxes are a favorite means employed to exact contributions for the public purse from the corporations. These taxes are levied in a variety of ways, usually proportionate to the volume of business of the corporation, as for example the gross receipts tax of Pennsylvania. The 1 per cent yielded by the business tax classified as income of individuals was collected in nine states. Connecticut alone realized \$2,595,835 from this source, more than one-half of the total amount received.

The license business taxes consist of

TABLE V—ANALYSIS OF THE VARIOUS SOURCES OF TAXATION RECEIPTS IN PENNSYLVANIA, 1903–1919

	Total	General Property	Special Property	Other Special Taxes	Business	Non-Business
1903.....	\$18,333,027	19.2	48.7	...	32.1	....
1913.....	27,502,417	4.5	68.6	...	24.7	2.2
1915.....	29,930,502	....	68.	...	26.	6.
1916.....	30,437,716	....	66.7	1.3	25.	7.
1917.....	35,039,290	....	66.2	2.5	23.5	7.8
1918.....	29,911,027	....	55.	5.2	27.9	11.8
1919.....	41,858,270	....	65.3	2.3	21.9	10.5

per cent. These taxes also find intensive use in Maine, Connecticut, Missouri, Maryland, Virginia, Louisiana, Oklahoma, Montana, and Mississippi. Certain states, however, chiefly Michigan, Illinois, New Jersey, Wisconsin, Iowa, Texas, and Colorado depend upon these taxes for only a comparatively small amount of their revenues.

The importance of the various items under the business taxes are clearly illustrated in chart II and table II (*p. 115*) showing that insurance companies, other corporations, business licenses, and other business taxes yielded 4.4 per cent, 11.4 per cent, 5.4 per cent, and 1.6 per cent respectively. Only three states, Michigan, Virginia, and Nevada failed to levy any taxes on the business of insurance companies. In

those taxes levied with the issuance of a permit to engage in certain business activities. The most important are the taxes levied with the issuance of liquor licenses or licenses to persons in professional or mercantile occupations. In some states license business taxes also include such license taxes as are collected from telephone, telegraph and steamboat companies. Even as late as 1919 the liquor traffic furnished 2.8 per cent of the taxation receipts of the states. The source designated as "all other" under business taxes refers to those sums realized in certain states from taxing the proceeds of mines, from specified fees and commissions, and from taxing the receipts of dealers in specified products.

Non-business license taxes, which

have become an important source during the last decade only, are taxes other than upon business levied for purposes of regulation. By far the most important of these taxes is the license tax exacted from owners of motor vehicles. Non-business license taxes in 1919 supplied 9.1 per cent of the total taxation receipts to states, motor licenses alone accounting for

of this amount \$7,799,041 were collected in New York. These taxes are chiefly incorporation or organization taxes that are levied at specified rates on the capital stock of corporations at the time of their organization. They also include taxes on transfers of stock and on the recording of wills, deeds, and mortgages, and on properties of express, telegraph, and sleeping-car companies.

TABLE VI—AGGREGATE REVENUE RECEIPTS FROM VARIOUS SOURCES, 1913

	<i>Per Capita</i>	<i>Per Cent</i>
<b>Taxes:</b>		
General property taxes.....	\$282,077,069	3.29
Poll taxes.....	5,817,855	.07
Special property taxes.....	805,419	.01
Business taxes.....	92,866	....
Liquor licenses.....	6,577,556	.08
Other business licenses.....	1,475,993	.02
Non-business license taxes.....	1,701,578	.02
	<hr/>	<hr/>
	\$298,548,336	3.49
		80.7
<b>Other Than Taxes:</b>		
Special assessments, charges.....	9,323,078	.11
Fines, forfeits, escheats.....	3,531,537	.04
Highway privileges.....	164,768	....
Interest and rents.....	5,531,485	.06
Subventions and grants.....	23,682,813	.28
Donations and gifts.....	283,233	....
Earnings of public service enterprises.....	413,329	....
Earnings of general departments.....	28,564,467	.33
	<hr/>	<hr/>
<i>Grand Total</i> .....	\$370,043,046	4.32
		100.

8.3 per cent. Hunting and fishing licenses, dog licenses and permits of various kinds yielded the remaining .8 per cent from this source.

The other 2.9 per cent of the taxation receipts as yet not accounted for are the receipts from the poll tax and other special taxes, the former furnishing .4 per cent and the latter 2.5 per cent. Ten states still use the poll tax for securing state revenues, although only Indiana, Virginia, West Virginia, Georgia, and Texas make this tax a productive source. In 1919 other special taxes yielded \$13,554,063, and

An intensive study of the present revenue sources of the State of Pennsylvania reveals many striking contrasts and interesting differences in the methods employed by this state to raise revenue in comparison with the methods employed by the states in general. This can easily be apprehended by comparing tables I and II and charts I and II with tables III and IV and charts III and IV. Taxation and the general departmental receipts furnish 98.5 per cent of Pennsylvania's revenue receipts, so that these are the only sources really necessary to consider in

studying the revenue sources of this state. Since the departmental receipts, however, are of relative unimportance in comparison with taxation, it would be of little value and interest to include a detailed analysis of this source.

The unique feature of the revenue system of Pennsylvania is the complete absence of the general property tax. Since 1913, when the state relinquished the general property tax to the cities, counties, and other municipal corpora-

Because of constitutional provisions and court decisions the Legislature of Pennsylvania cannot pass a law providing for a graduated inheritance tax. The present law, therefore, provides a levy of two per cent and five per cent on the clear value of all property passing to the lineal and collateral descendants, respectively. The only exemptions permitted are the debts of the decedent and the expenses of administration.

TABLE VII—AGGREGATE REVENUE RECEIPTS OF COUNTIES OF PENNSYLVANIA, 1913<sup>1</sup>

Taxes:

General property.....	\$12,552,663	1.94	71.1
Liquor licenses.....	423,357	.07	2.4
Other business licenses.....	4,710	....	....
Non-business licenses.....	138,483	.02	.8
	\$13,119,213	2.03	74.3

Other Than Taxes:

Fines, forfeits, escheats.....	160,082	.02	.9
Highway privileges.....	60,147	.01	.3
Interest and rents.....	213,274	.03	1.2
Subventions and grants.....	2,159,941	.33	12.2
Earnings of general departments.....	1,920,069	.30	11.0
Earnings of public service enterprises.....	7,337	....	.1
	\$17,640,063	3.72	100.

<sup>1</sup> *Wealth, Debt, and Taxation* 1913 does not include Philadelphia County which is co-extensive with Philadelphia City.

tions, the state has relied upon the special property taxes for the larger portion of its revenue. The total revenue receipts in 1918 amounted to \$47,202,233 and of this sum \$27,350,941 or 57.9 per cent came from special property taxes. The receipts from special property taxes represented 65.3 per cent of the taxation receipts and a per capita revenue of \$3.11. Included in the special property taxes in Pennsylvania are the tax on inheritances, the corporate stock tax, and the tax on corporate loans. These three taxes produce 13.5 per cent, 38.2 per cent, and 13.6 per cent of the taxation receipts, respectively.

By far the most important single element of the entire revenue system of Pennsylvania is the capital stock tax. The rate of this tax is five mills and is levied upon the actual value of the whole capital stock of every joint-stock association, limited partnership, and corporation doing business within the state. The rate on bank stock is four mills, on the stock of fire and marine insurance companies three mills, and on liquor distilling and selling companies ten mills. It is essential to note, however, that this tax does not apply to corporations organized for manufacturing purposes, since they are exempted from paying this

tax on stock actually invested in and exclusively employed in manufacturing within the state. The corporate bond tax is levied on all bonds and evidences of indebtedness of private and municipal corporations held by residents of the state. It is made the duty of the treasurers of corporations issuing such bonds to deduct four mills

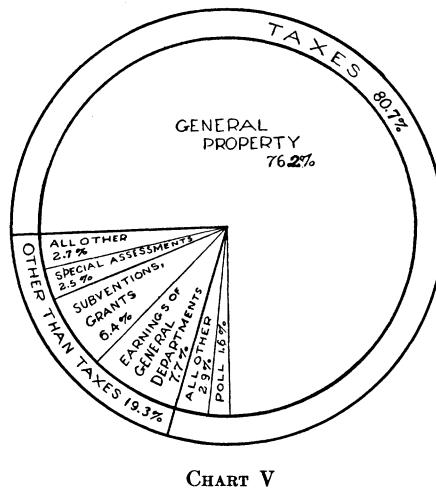


CHART V

Per Cent Distribution of Aggregate Revenue Receipts of Counties of United States<sup>1</sup>

<sup>1</sup> *Wealth, Debt, Taxation* 1913.

on every dollar of interest paid. The capital stock tax is exceedingly productive, yielding 38.2 per cent of the taxation receipts, or 33.8 of the total revenue receipts. The source "all other" under the special property taxes, including principally the corporate bond tax, furnishes the remaining 13.6 per cent of the special property taxes.

The business taxes in Pennsylvania are of about the same degree of importance in the state's revenue receipts as they are in the aggregate revenue receipts of all the states. The total from business taxes amounted to \$9,194,410 in 1918, which represented 21.9 per cent of the taxation receipts and a per capita contribution of \$1.03,

approximately one-third of the amount collected from the special property taxes. One-fourth of the business taxes were paid by the insurance companies. The taxes of these companies amounted to 5.5 per cent of all the money collected from taxes. Domestic insurance companies are required to pay a tax of eight mills and foreign insurance companies a tax of two per cent. In both instances the levy is made annually upon the gross premiums received from business done within the state. By far the larger amount is necessarily paid by the foreign companies. The other incorporated companies referred to under the business taxes include chiefly transportation companies, electric light, telegraph and telephone companies, and express companies, which are required to pay annually a tax of eight mills upon the gross receipts received within the state. The 5.5 per cent received from this source was paid largely by the railroads.

The business license taxes were received mostly from the liquor traffic, but they also include license taxes levied on professional or mercantile occupations, such as merchants, peddlers, auctioneers, brokers, and private bankers. The gross receipts of persons engaged in mercantile occupations are also taxable, and the source designated as "all other" under the business taxes includes these receipts. Retail vendors of goods (in addition to their license tax) are required to pay 1 mill on each dollar of the gross volume of business transacted annually. Wholesale vendors are required to pay one-half mill.

The non-business license tax produced in 1918 a total of \$4,338,895 of which more than nine-tenths was derived from motor licenses. The source "other special taxes" in Pennsylvania refers to the tax generally

termed as the bonus on charters. Corporations created under the laws of the state must pay a bonus of one-third of one per cent upon the capital stock authorized. In case there is any subsequent increase of capital stock the tax must also be paid on such increase.

Chart IV and table IV (*p. 117*) give an analysis in diagrammatic form of the sources of the taxation receipts and their relative productivity just described.

From the analysis in table V (*p. 118*) it is evident that the present revenue sources of Pennsylvania have been utilized for an extended period of years. The most significant change came in 1913 when the state definitely abandoned the general property tax. This change in the state's revenue system was not, however, sudden and unexpected, for in the years preceding 1913 the state was gradually relinquishing its dependence on this source by continually increasing the sums appropriated to the counties from this tax. As early as 1903 the special property taxes were the vital element in the state's taxation system. Although fluctuations are perceptible in the amounts collected from year to year, they are not consistent enough to justify the conclusion that there is a trend away from the special property taxes. It is not probable that the revenue from other special taxes will increase or be subject to important changes, since this is chiefly the organization or incorporation tax, which increases and decreases in productivity with periods of business expansion and depression. If we except the year 1918, during which period owing to war conditions business was tremendously stimulated, there is apparent a slight decline in the income derived from business taxes. The rapid increase in motor vehicles accounts for the sud-

den growth of the non-business license tax, and this tax is unquestionably a source that will remain a permanent and productive source for state revenues. It has compensated for the slight decline in the special property and the business taxes.

Table VI (*p. 119*) analyzes the aggregate revenue receipts of all the counties in the United States for the year 1913. These are the latest statistics available for such an analysis, although it is known that the sources and their relative productivity have not undergone any considerable change since that date. The counties, just as the states, are largely dependent on taxes for their revenue receipts. The principal sources other than taxes are the subventions and grants received by the counties from the state governments and the general departmental receipts which include fees and charges collected by the county for certain services rendered or special benefits conferred. Under the revenue receipts from taxation little comment is necessary since the general property tax is practically the sole source, yielding 76.1 per cent of the revenue receipts and a per capita amount of \$3.29.

The counties of Pennsylvania rely on the general property taxes to about the same degree that this tax is generally relied upon by all the counties of the United States. Since the state in 1913 was still using the general property tax to a limited extent, recent statistics, because of the entire abandonment of this tax by the state, will show a larger dependence on this tax by the counties. In addition to the general property tax the counties of the state secure a considerable portion of their revenue receipts from the state subventions and the general departmental receipts. These sources furnish 12.2 per cent and 11 per cent, respectively.